

Shelby Area District Library  
64-8002  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

February 29, 2004

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>SHELBY AREA DISTRICT LIBRARY</b>	County <b>OCEANA</b>
Audit Date <b>February 28, 2004</b>	Opinion Date <b>June 9, 2004</b>	Date Accountant Report Submitted to State: <b>August 26, 2004</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Countries and Local Units of Government in Michigan, by the Michigan Department of Treasury.

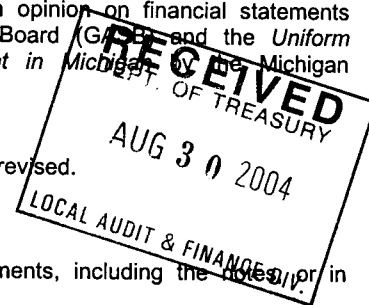
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We have certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |                              |  |   |
|------------------------------|--|---|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |



## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)

**BRICKLEY DELONG, PLC**

Street Address

**500 TERRACE PLAZA, P.O. BOX 999**

City

**Muskegon**

State

**Michigan**

ZIP

**49443**

Accountant Signature

*Matthew J. Carter, C.P.A. for Brickley DeLong, PLC*

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BRICKLEY DeLONG  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

June 9, 2004

Library Board  
Shelby Area District Library  
Shelby, Michigan

We have audited the accompanying general purpose financial statements of Shelby Area District Library as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of Shelby Area District Library's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Shelby Area District Library as of February 29, 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Brickley DeLong, PLC*

Shelby Area District Library  
**COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS**  
February 29, 2004

**ASSETS**

	Governmental Fund Types		Fiduciary Fund Type	Account Groups	
	General	Capital projects		General fixed assets	General long-term debt
		Trust			
Cash and equivalents	\$ 41,842	\$ 15,022	\$ 149,318	\$ -	\$ -
Taxes receivable	42,132	-	-	-	-
Property and equipment—at cost	-	-	-	1,409,871	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	3,000
	<u>\$ 83,974</u>	<u>\$ 15,022</u>	<u>\$ 149,318</u>	<u>\$ 1,409,871</u>	<u>\$ 3,000</u>

**LIABILITIES AND FUND EQUITY**

Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 3,000
Fund equity					
Investment in general fixed assets	-	-	-	1,409,871	-
Fund balances					
Reserved for pension benefits	-	-	149,318	-	-
Reserved for construction/replacement	-	15,022	-	-	-
Undesignated	83,974	-	-	-	-
	<u>83,974</u>	<u>15,022</u>	<u>149,318</u>	<u>1,409,871</u>	<u>-</u>
	<u>\$ 83,974</u>	<u>\$ 15,022</u>	<u>\$ 149,318</u>	<u>\$ 1,409,871</u>	<u>\$ 3,000</u>

The accompanying notes are an integral part of this statement.

Shelby Area District Library  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES—GENERAL FUND AND CAPITAL PROJECTS FUND  
Year ended February 29, 2004

	General	Capital projects
Revenues		
Taxes	\$ 97,909	\$ -
Intergovernmental revenues		
State	10,604	-
Local	28,014	-
Fines and forfeits	82,090	-
Investment income	605	2,698
Contributions	5,088	145,620
Other	5,804	-
	<u>230,114</u>	<u>148,318</u>
Expenditures		
Current		
Salaries and fringes	144,248	-
Supplies	7,506	-
Other services and charges	47,024	286
Capital outlay	24,830	325,829
Debt service		
Principal	1,500	-
	<u>225,108</u>	<u>326,115</u>
Excess of revenues over (under) expenditures	5,006	(177,797)
Other financing sources (uses)		
Operating transfers in	-	192,819
Operating transfers out	(192,819)	-
	<u>(192,819)</u>	<u>192,819</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(187,813)	15,022
Fund balances at March 1, 2003	271,787	-
Fund balances at February 29, 2004	<u>\$ 83,974</u>	<u>\$ 15,022</u>

The accompanying notes are an integral part of this statement.

Shelby Area District Library  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES—BUDGET AND ACTUAL—  
GENERAL FUND  
Year ended February 29, 2004

	Amended budget	Actual	Over (under) amended budget
Revenues			
Taxes	\$ 99,000	\$ 97,909	\$ (1,091)
Intergovernmental revenues			
State	10,800	10,604	(196)
Local	27,800	28,014	214
Fines and forfeits	87,400	82,090	(5,310)
Investment income	2,000	605	(1,395)
Contributions	189,500	5,088	(184,412)
Other	5,000	5,804	804
	<u>421,500</u>	<u>230,114</u>	<u>(191,386)</u>
Expenditures			
Current			
Salaries and fringes	147,500	144,248	(3,252)
Supplies	8,700	7,506	(1,194)
Other services and charges	47,100	47,024	(76)
Capital outlay	25,700	24,830	(870)
Debt service			
Principal	1,500	1,500	-
	<u>230,500</u>	<u>225,108</u>	<u>(5,392)</u>
Excess of revenues over expenditures	191,000	5,006	(185,994)
Other financing uses			
Operating transfers out	(191,000)	(192,819)	(1,819)
Excess of revenues over expenditures and other financing uses	\$ -	(187,813)	\$ (187,813)
Fund balances at March 1, 2003		<u>271,787</u>	
Fund balances at February 29, 2004		<u>\$ 83,974</u>	

The accompanying notes are an integral part of this statement.

Shelby Area District Library  
Pension Trust Fund  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
Year ended February 29, 2004

<b>ADDITIONS</b>	
Employer contributions	\$ 3,494
Investment income	
Net appreciation in fair value	<u>40,533</u>
<b>NET INCREASE FOR THE YEAR</b>	44,027
Net assets held in trust for pension benefits at March 1, 2003	<u>105,291</u>
Net assets held in trust for pension benefits at February 29, 2004	<u><u>\$ 149,318</u></u>

The accompanying notes are an integral part of this statement.

Shelby Area District Library  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Shelby Area District Library are prepared in accordance with generally accepted accounting principles. The Library's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

1. Reporting Entity

The Shelby Area District Library (Library) was established pursuant to the Library Act of the State of Michigan. The Library operates under an appointed Board of Trustees.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

2. Fund Accounting

The accounts of the Library are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device used to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The following fund categories (further divided by fund type) and account groups are used by the Library:

***Governmental Funds***

Governmental funds are used to account for the Library's general government activities. The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund. The capital projects fund accounts for acquisition of fixed assets or construction of major capital projects not being financed by proprietary or trust funds.

***Fiduciary Funds***

Fiduciary funds account for assets held by the Library on behalf of others in a fiduciary capacity. Pension trust funds account for assets held in a fiduciary capacity for employee retirement benefits. The agency fund accounts for assets the Library holds on behalf of others.

***Account Groups***

The General Fixed Assets Account Group is used to account for fixed assets. The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities.

Shelby Area District Library  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

The governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Library considers all revenues available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Library and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Pension trust funds are custodial in nature and utilize accrual accounting.

4. Assets, Liabilities and Equity

a. Deposits and Investments

The Library’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All short-term cash surpluses are maintained in a cash and investment pool and allocated to each fund based on month-end deposit and investment balances.

Shelby Area District Library  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Equity—Continued

a. Deposits and Investments—Continued

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools, and certain mutual funds.

The Library's pension trust investments are held in trust by the investment fiduciary, Farm Bureau and American funds. Michigan Compiled Laws, Section 38.1132, authorizes the Library's plan to invest in a wide variety of investments including stocks, bonds, certificates of deposit, real estate, annuity contracts obligations of a specified nature, and real or personal property.

b. Receivables and Payables

Transactions between funds (if any) that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All property tax receivables are shown net of an allowance for uncollectibles.

The Library collects property taxes through Shelby Township. Taxes are levied on December 1 and are due without penalty on or before February 14. The property taxes attach as an enforceable lien on property as of December 1. Uncollected real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of February 14 remain the responsibility of the Township Treasurer. Since substantially all Library property taxes levied are current receivables, tax revenues are recognized when levied.

The 2003 taxable value for the Library was \$67,269,846 on which ad valorem taxes were levied at 1.4678 mills for operating purposes. These amounts are recognized in the General Fund.

Shelby Area District Library  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Equity—Continued

c. Property and Equipment

Property and equipment assets used in governmental fund types of the Library are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the General Fixed Assets Account Group.

d. Long-Term Obligations

The Library reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the General Long-Term Debt Account Group.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

e. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Shelby Area District Library  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

***Budgetary Information***

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except capital projects funds. Capital projects funds adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first day of February, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. No later than the first Tuesday in February, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function, and department. The Library's Director may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Library Board. The legal level of budgetary control is the department level. The Library Board made several supplemental budgetary appropriations through the year. Other supplemental budgetary appropriations in other funds were not considered material.

Shelby Area District Library  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The Library's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of February 29, 2004, the Library's carrying amount of deposits was \$56,864 and the bank balance was \$56,691. The bank balance was covered by federal depository insurance.

2. Investments

As of February 29, 2004, the Library's investments represented holdings in mutual funds.

During the year ended February 29, 2004, the Library's investments were only in these types of investments.

The Library's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or the securities held by the Library or its agent in the Library's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Library's name. Mutual funds are not categorized. As of February 29, 2004, the Library's carrying amount and market value in those mutual funds was \$149,318.

The composition of pension trust fund investments at fair value is included in the previous paragraph and shown in the following table:

Money market funds	\$ 75,763
Managed Domestic stock funds	<u>73,555</u>
	<u>\$ 149,318</u>

Shelby Area District Library  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
February 29, 2004

**NOTE D—PROPERTY AND EQUIPMENT**

***Summary of Changes in General Fixed Assets***

Changes in the components of General Fixed Assets Account Group are summarized as follows:

	Balance March 1, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance February 29, <u>2004</u>
Collection	\$ 552,236	\$ 22,320	\$ 26,243	\$ 548,313
Buildings and improvements	396,163	276,169	-	672,332
Equipment	137,056	2,510	-	139,566
Furniture	<u>-</u>	<u>49,660</u>	<u>-</u>	<u>49,660</u>
	<u>\$1,085,455</u>	<u>\$ 350,659</u>	<u>\$26,243</u>	<u>\$ 1,409,871</u>

**NOTE E—GENERAL LONG-TERM DEBT**

**1. Summary of Changes in Long-Term Debt**

The following is a summary of transactions in long-term debt for the year:

	<u>General Long-Term Debt Account Group</u>
Long-term debt at March 1, 2003	\$ 4,500
Retirements	<u>(1,500)</u>
Long-term debt at February 29, 2004	<u>\$ 3,000</u>

**2. Summary of Long-Term Debt**

Long-term debt at February 29, 2004 was comprised of the following:

	Balance March 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance February 29, <u>2004</u>
Capital lease payable in annual payments of \$1,500 through June 2006	\$ 4,500	\$ -	\$ 1,500	\$ 3,000

Shelby Area District Library  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE E—GENERAL LONG-TERM DEBT—Continued

3. Summary of Annual Requirements

The annual requirements to pay debt service on the long-term obligations outstanding at February 29, 2004 are as follows:

<u>Fiscal Year</u>	<u>General Long-Term Debt Account Group</u>
2005	\$ 1,500
2006	<u>1,500</u>
	<u>\$ 3,000</u>

NOTE F—OTHER INFORMATION

1. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred in excess of insurance coverage and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the past three years.

2. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Library expects such amounts, if any, to be immaterial.

NOTE G—PENSION PLAN

The Library provides pension benefits for all of its full-time employees through a money purchase defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. The Plan is administered through an independent third party, and contributions are based on annual earnings. For the year ended February 29, 2004, the Library contributed approximately \$3,500 which represents 3.5 percent of covered wages.